

AR61

Speed and Reference Room
University of Alberta
3 Business Building
Edmonton, Alberta T6G 2R6

RIDER

RESOURCES INC.



RIDER RESOURCES INC.

NORTH HANDSWORTH

LSD 7-34-10-8 W2M

IN CASE OF EMERGENCY CALL:
(403) 266-0844 - OFFICE OR (403) 242-1948

*...turning
the corner*

ANNUAL REPORT

1996

Corporate Profile

Rider is an emerging oil and gas company headquartered in Calgary, Alberta and publicly listed on the Alberta Stock Exchange ("RRI.A"). Incorporated in 1993, Rider's growth has been enhanced by low risk development activity and strategic acquisitions.

Table of Contents

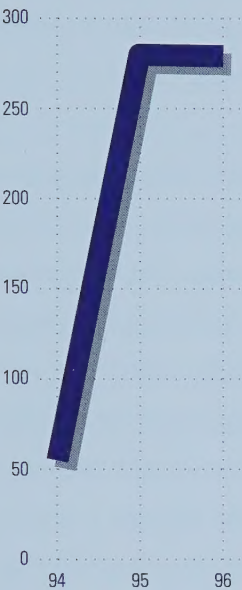
1996 Highlights	1
President's Message.....	2
Strategic Vision	4
Rider's Team.....	5
Operations	6
Management's Discussion and Analysis	10
Financial Statements	18
Three Year Summary.....	26
Corporate Information	Inside Back Cover

Annual Meeting of Shareholders

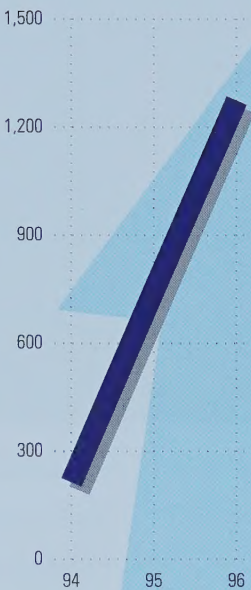
Shareholders are encouraged to attend Rider's Annual General Meeting of Shareholders which will be held on Thursday May 22, 1997 at 3:00 pm at the Calgary Petroleum Club, 319 Fifth Avenue S.W., Calgary, Alberta.

1996 Highlights

Daily Production
(BOE/d)



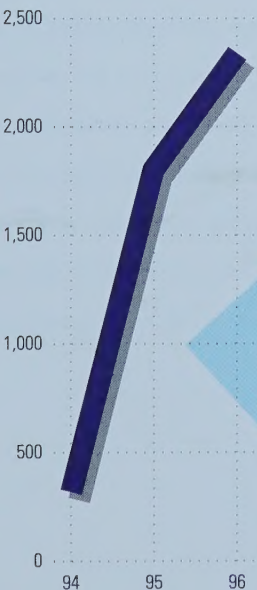
Cash Flow
(thousands \$)



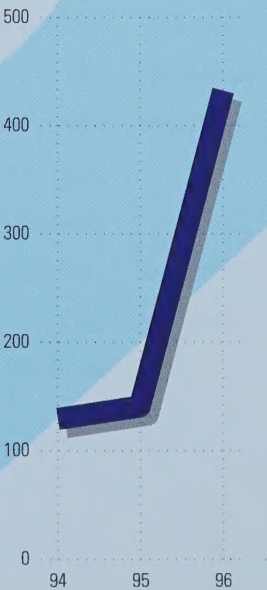
Closing Share Price
(\$)



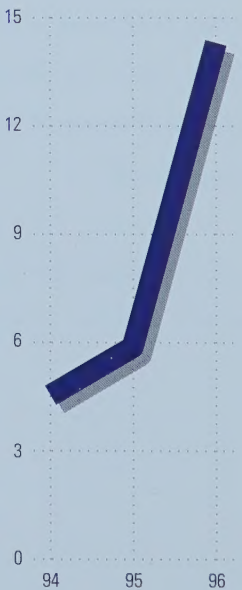
Oil & Gas Sales
(thousands \$)



Net Income
(thousands \$)



Return on Equity
After Income Tax (%)



RIDER'S SHARE PRICE INCREASED BY A REMARKABLE 296% IN 1996



President's Message to the Shareholders

Rider's impressive growth in 1996 reflects the results of its highly successful drilling program. Horizontal drilling at Handsworth boosted exit production to 450 BOEPD. An additional 914,000 BOE of proven reserves replaced production 8.9 times at finding costs below \$2.60 per barrel for proven reserves. Strong product prices recorded in 1996 brought higher levels of revenue, cash flow and earnings. Cash flow rose by 67% to \$1,267,000 (\$0.55 per share) and earnings showed a 207% gain at \$427,000 (\$0.18 per share). Rider's share performance continues to reflect the ongoing success of Rider's drilling results closing the year at the \$4.95 mark.

Drilling activity during the first half of the year was hampered by wet weather conditions and rig unavailability. Rider, as operator, completed a two legged horizontal well (50% Rider) in October 1996. The well, which initially produced at 475 BOPD, stabilized at 180 BOPD. A second two legged horizontal was completed and placed on production in January 1997 and two more wells were drilled in 1997. The second horizontal well was a farm in well to earn a 100% interest in 160 acres contiguous to Rider's initial horizontal well.

Rider has also completed flow lines, a battery (100% interest) and water disposal facilities which, with third party processing

revenue, brings operating costs on the Handsworth wells to less than \$1.00 per barrel. In addition, as this production qualifies for the Saskatchewan government royalty "holiday", current netbacks are in the \$20 per barrel range.



Rider is excited about drilling initiatives on its Pembina lands, west of Edmonton, where the economics have become highly attractive. Production is expected to rise dramatically through the use of underbalanced drilling technology into the Cardium

formation next to Rider's existing vertical well producing from the same formation and offsetting the Pembina Cardium Unit #2 (Rider 18.63%). Also in the Pembina area, Rider as operator (50% interest) will be re-entering an existing gas well to test the by-passed Basal Quartz zone. Based on this test, Rider's adjacent 3,200 acres (75% average working interest) will be developed.

As gas production comes on stream in the Pembina area, Rider will access the nearby Keystone gas processing plant. In February of 1997, Rider scored a regulatory victory over the operator of this plant in its bid to have this gas plant declared a common processor. The EUB decision will reduce processing costs to more reasonable levels for Rider and other companies in the area, and enable Rider to proceed with plans to infill drill. As part of this ruling, Rider will also gain access to its share of natural gas liquids extracted from the plant.

CASH FLOW ROSE BY 67% OVER THE PREVIOUS YEAR



Outlook

Rider plans to accelerate its drilling program in 1997 to capitalize on its previous successes. An aggressive budget will be funded by cash flow and supplemented with some equity and debt. Rider's balance sheet at year end 1996 was stellar. The Company was debt-free and had \$563,000 in cash reserves. Based on estimated prices of US\$21.00 per barrel for WTI crude oil and \$1.45 per Mcf for natural gas, Rider is anticipating \$3,500,000 in 1997 cash flow. Ongoing development at Handsworth and Pembina should see production rise to 700 BOEPD to exit 1997. Finding and development costs for proven reserves fell a substantial 17% over 1995.

For Rider, as it enters the fourth full year of operations, the outlook in 1997 has never been better. Commodity prices are favorable and demand is strong, the Canadian dollar is favorably positioned relative to the U.S. dollar, interest rates are at an all-time low and the equity markets are receptive. As always, Rider management will be extremely prudent and limit debt to one year's cash flow and consider the issuance of additional equity only if it is non-dilutive.

As depicted on the front cover of this annual report, which reflects the trendline of Rider's share price performance, Rider has "turned the corner". From a company which started up three years ago with no assets and one full-time staff member, we now have a 24 year reserve base, and are headed to the Toronto Stock Exchange. We have added a full-time Vice President of Land & Marketing (Len Kotschorek) and a full-time Vice President of Finance (Tom Rouse). In summary, we have the people and we have the plays to make 1997 and 1998 even better.

At this time, I would like to express my appreciation to the Directors and the staff for their dedication and support to Rider. I would like to thank our shareholders for their continued support through this past successful year.



B.E. (Elliott) Horner

President

February 19, 1997

EARNINGS SHOWED AN OUTSTANDING GAIN OF 207% OVER 1995

Strategic Vision

Rider has focused on a strategy of exploiting and developing shallow oil wells which has increased profitability by decreasing finding and on stream costs to an exceptional \$2.59 per BOE. The emphasis on building a solid production base while maintaining tight control of operating costs and exploiting low risk quick payback projects has positioned Rider for significant expansion in the coming years.



(l-r): Mr. B. J. Seaman, Mr. B. E. Horner,
Ms. K. M. Horner, Mr. W. L. Kaufmann

Our listing on the Toronto Stock Exchange will allow us to attract more capital which will lead to accelerated expansion. Our plans for exploiting existing areas and reaching critical mass will fuel our strategy of development and exploration.

Rider is continuing to finance future growth through a balance of cash flow, equity and prudent management of debt so as to further leverage on the Company's profitability.

RIDER MORE THAN DOUBLED ITS YEAR END PROVEN RESERVES OF OIL AND GAS

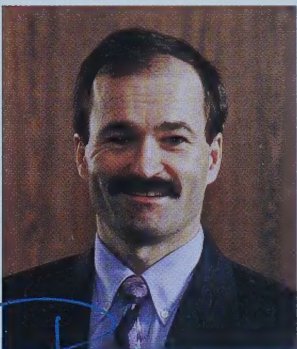


Rider's Team



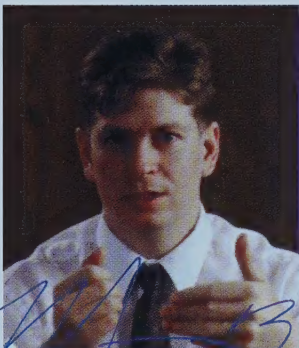
Len Kotschorek

Len Kotschorek
Vice President, Land & Marketing



Tom Rouse

Tom Rouse
Vice President, Finance



Martin Buschau

Martin Buschau
Senior Engineer



Joanne Dial

Joanne Dial
Controller



Betty Swift

Betty Swift
Office Administrator



RIDER'S SHARE PRICE INCREASED BY A REMARKABLE 296% IN 1996

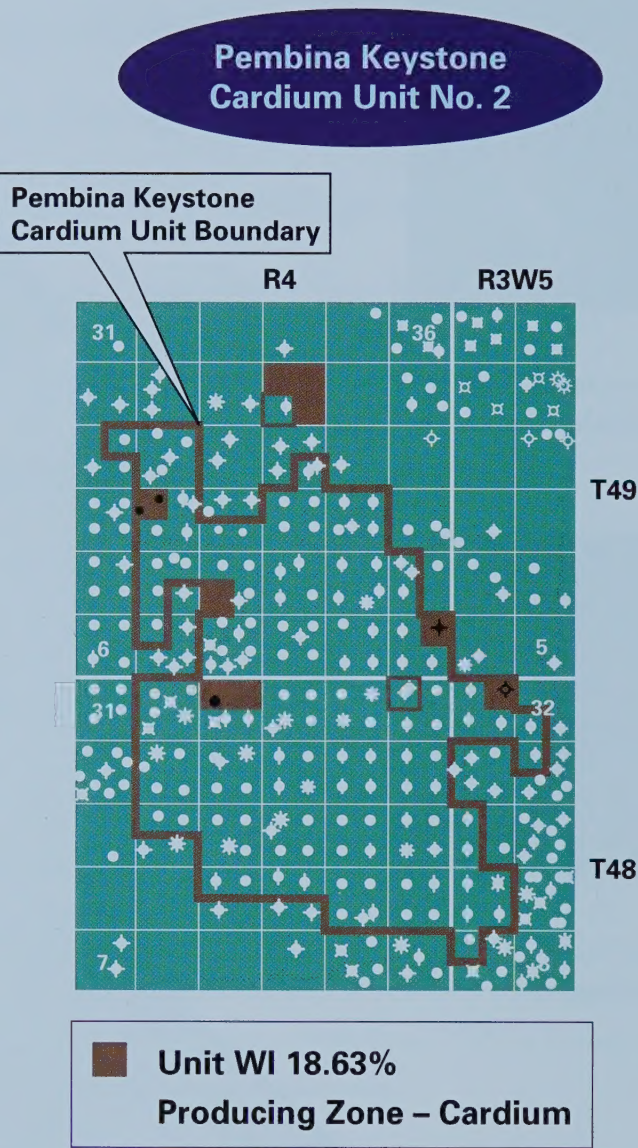
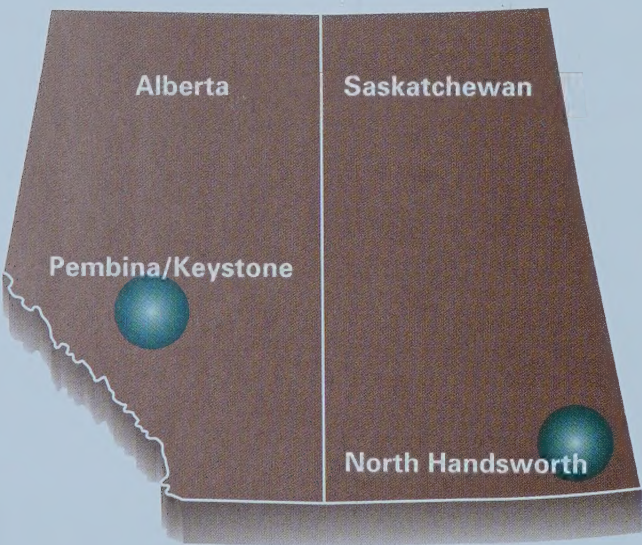


Operations

Core Areas and 1997 Activity

Rider continues to pursue exploration, exploitation and production opportunities that meet the corporate and management objective of adding to shareholder value. Management is proactively evaluating and pursuing property acquisitions.

Rider will focus its 1997 drilling activity on its two core areas: Pembina in Alberta and North Handsworth in Southeast Saskatchewan.



Alberta

At Pembina (140 miles Northwest of Calgary), Rider's key anchor prospect is an 18.63% working interest in the Pembina Keystone Cardium Unit No. 2 (PKCU 2). Currently this unit is producing on 160 acre spacing and remains on primary production. Rider also has various working interests, GORR's and a net carried interest in a total of three units and undeveloped acreage surrounding the PKCU 2.

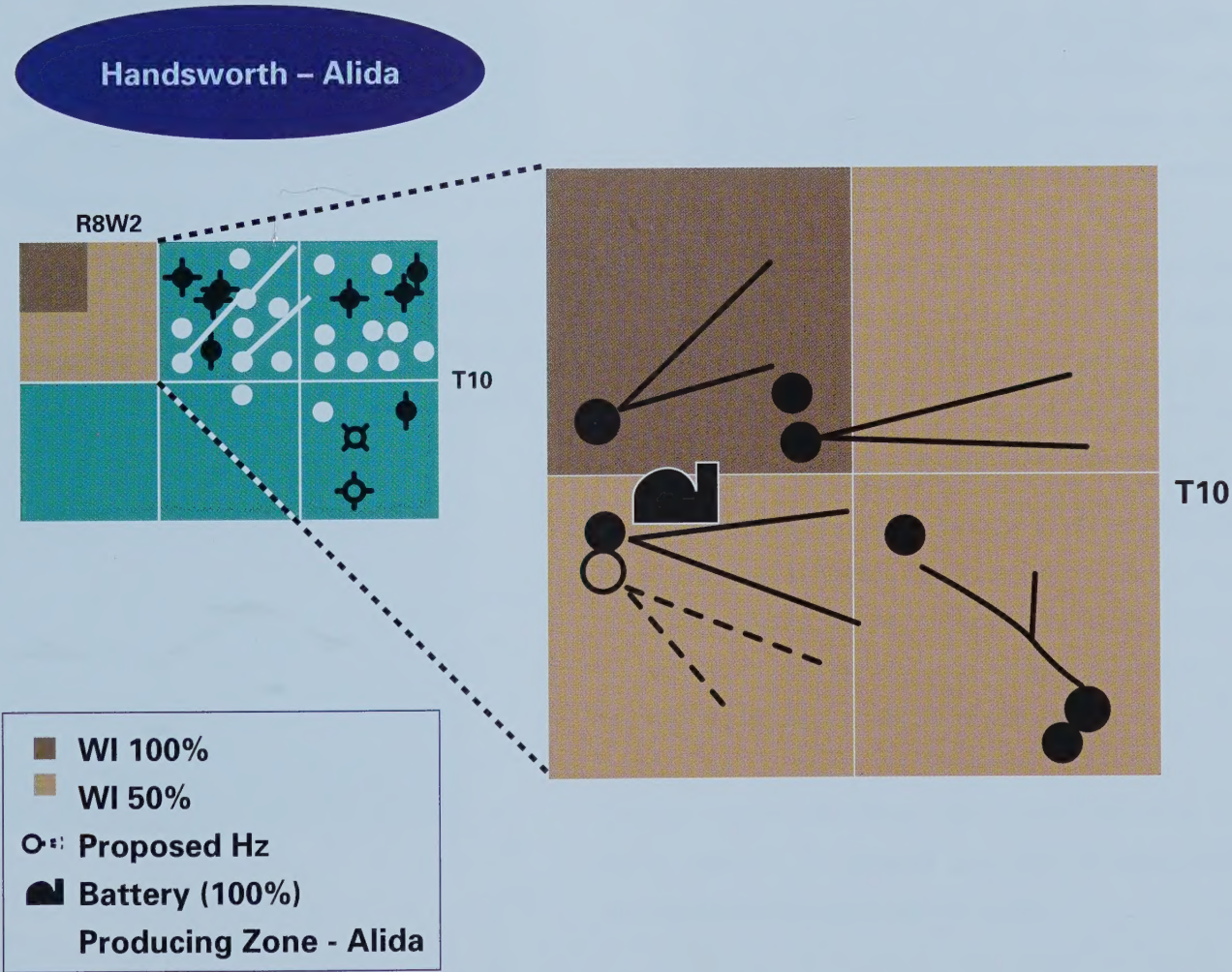
CASH FLOW ROSE BY 67% OVER THE PREVIOUS YEAR

Saskatchewan

Rider will continue to drill on its acreage at Handsworth (70 miles northeast of Weyburn). The Handsworth prospect is a huge part of Rider's success story to date. Rider had previously shot seismic, drilled three vertical wells and one double legged horizontal well on its Handsworth lease. A second double legged horizontal well was drilled and completed over year end and placed on production in early January 1997. This well was a farmin commit well to earn for partners a 100% working interest in acreage contiguous to Rider's initial successful horizontal.

During the first quarter of 1997, Rider has drilled two additional double legged horizontal wells in North Handsworth and one more horizontal well is planned for after break up.

Rider has installed its own battery (100%) and water disposal facilities, thereby reducing operational costs to less than \$1.00 per barrel.



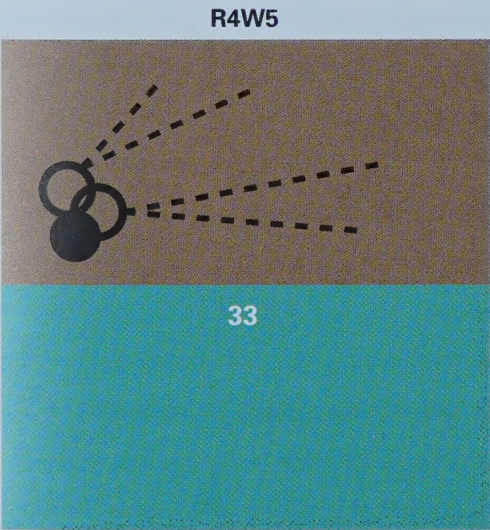
RIDER'S SHARE PRICE INCREASED BY A REMARKABLE 296% IN 1996



In 1997, Rider has three drilling initiatives at Pembina. The first, is to drill a Cardium test using the horizontal drilling technique. The location for this test is right next to an existing Rider vertical well, producing from the Cardium formation and offsets the PKCU 2. Rider's working interest in the targeted horizontal is 75%. The Cardium yields 36 degree API sweet crude.

This will be the first horizontal well in the Cardium formation in the immediate area. Depending on the degree of success, Rider has a second horizontal test planned on a contingency basis. Total development of this lease will require 4 horizontal wells.

Pembina – Cardium

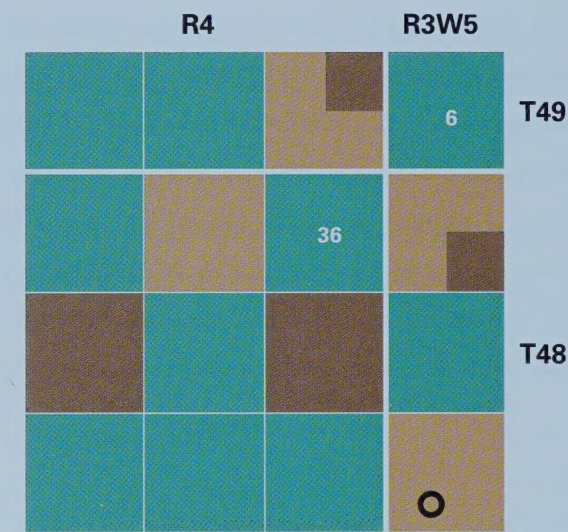


Avg. WI 75%

Proposed Hz

Producing Zone – Cardium

Pembina – Basal Quartz



WI 100%

WI 50%

Proposed Re-entry

Producing Zone – Basal Quartz

The second drilling initiative in the Pembina area, is to test the Basal Quartz formation for natural gas. Rider has a 50% pooled working interest in the section of the budgeted test. Rider's intention is to re-enter an existing well and test by-passed pay in the Basal Quartz. This well was drilled in the early sixties and the initial drill stem tests indicated production of 4 Mmcf/d from this horizon.

Rider has 3,200 acres (average 75% working interest) of Basal Quartz rights in the offsetting area which it could develop immediately based on the results of this test.

EARNINGS SHOWED AN OUTSTANDING GAIN OF 207% OVER 1995

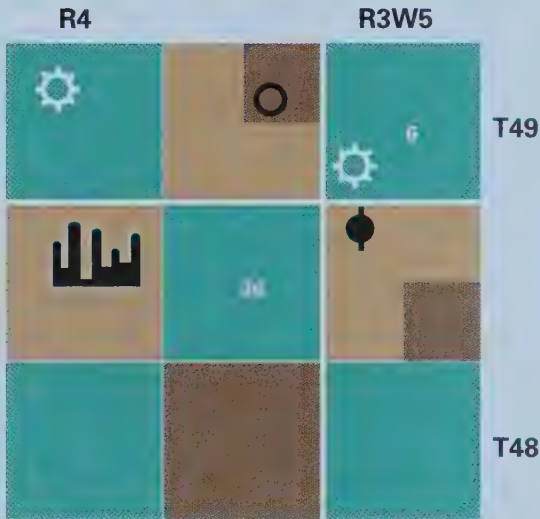
Rider's third 1997 initiative at Pembina will be to drill a multi-zone test. Rider has an effective 63% working interest in the section of the budgeted test. Immediately offsetting this location to the east is a Basal Belly River natural gas well. This well's initial production was 3.1 Mmcf/d.

There is a Basal Colorado natural gas well discovery directly to the west. This well's initial production was 1.2 Mmcf/d. Three quarters of this section have been unitized in the Cardium formation and is part of the PKCU 2.

Rider is optimistic about this test. Depending on the degree of success, Rider has 2,560 acres (average 69% working interest) of mineral rights in the offset area for immediate development.

As gas production materializes in the Pembina area, Rider will need access to processing facilities. Fortunately the closest natural gas processing plant is only one mile away from the proposed test location. Rider has already commenced negotiations for acceptable processing arrangements with the owner/operator of this facility.

Pembina - Multi Zone



WI 100%

WI 50%

Proposed Location

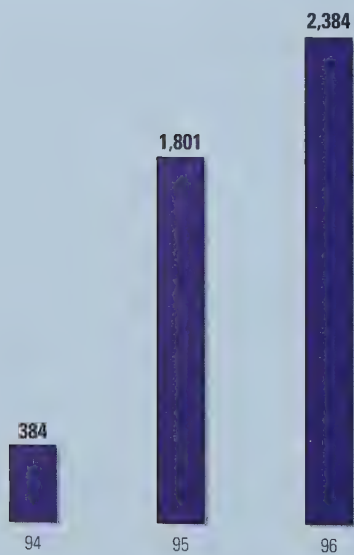
Gas Plant

**Producing Zones - Basal Belly River
Basal Quartz
Cardium**

Management's Discussion and Analysis

In 1996 Rider's growth was outstanding. The Company invested \$2.4 million in capital expenditures and more than doubled its year end proven reserves of oil and gas, resulting in finding and on-stream costs of \$2.59 per BOE. Proven reserves added in 1996 replaced production ninefold. Production for 1996 remained flat compared to 1995 at 280 BOEPD; however, production in the fourth quarter of 1996 averaged 390 BOEPD (a 60% increase over average daily production to September 30, 1996) and is expected to increase substantially during 1997. Cash flow from operations increased to \$1.3 million, a 57% increase on a per share basis in 1996. Net income improved by 207% to \$427 thousand in 1996 from \$139 thousand in 1995.

Oil & Gas Sales
(thousands \$)



Oil and Gas Revenue

Rider's revenue from oil and gas sales increased by 32% to \$2.4 million in 1996 compared to \$1.8 million in 1995.

Sales of crude oil accounted for \$1.96 million (1995 - \$1.48 million) of revenue or 82% of the Company's total revenue during the year. Crude oil production averaged 188 BOPD, an increase of 2% over the 185 BOPD produced in 1995. With Rider's drilling success at Handsworth in Saskatchewan, fourth quarter 1996 crude oil production increased to average 288 BOPD, an 87% increase over the average daily production to September 30, 1996. Rider's crude oil price averaged \$28.57 per barrel, 30% higher than the \$22.01 received in 1995.

Natural gas revenues increased by 34% to \$422 thousand in 1996 from \$314 thousand in 1995. Daily production averaged 928 Mcf/d, a 4% decline from 1995's average of 966 Mcf/d. Natural gas prices, however, strengthened during the year to average \$1.24 per Mcf from \$0.89 per Mcf in 1995 to more than offset the decline in production rates.

Daily production in the fourth quarter of 1996 averaged 390 BOEPD with the incremental oil production from Handsworth.

Subsequent to year end, Rider has drilled three additional horizontal wells at Handsworth. The Company also plans to drill a fifth horizontal well in the area as soon as possible. It is expected that Rider will experience a significant positive impact to its daily production in 1997 from this initiative alone.

CASH FLOW ROSE BY 67% OVER THE PREVIOUS YEAR

Royalties

Royalty expense, net of the Alberta Royalty Tax Credit, decreased to \$166 thousand (\$1.62 per BOE) from \$178 thousand (\$1.73 per BOE) in 1995. In Saskatchewan, horizontal oil wells are subject to a reduced royalty rate of 4% on the first 75,000 barrels of oil produced. With Rider's horizontal drilling success in the area the overall corporate royalty rate has decreased to 5% of oil and gas revenues from 8% the previous year. This trend is expected to continue as further horizontals are drilled in the area in 1997.

Production Expenses

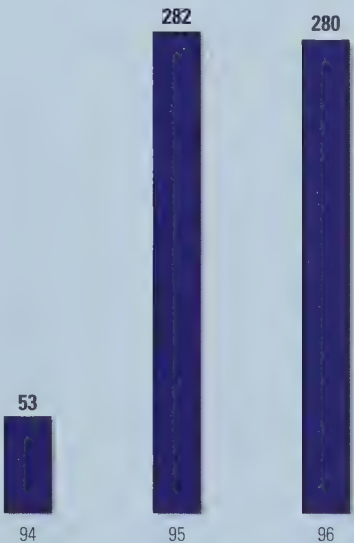
Total production expenses for the year increased to \$886 thousand (\$8.63 per BOE) compared to \$796 thousand (\$7.74 per BOE) in 1995. Rider expects to achieve a significant reduction in unit operating expenses in 1997 due to two factors. During 1996 Rider completed the construction and commissioning of its battery facility at Handsworth. This gives the Company a higher degree of control over its operating costs in the area as production continues to grow from further horizontal drilling. Secondly, subsequent to year end, the Alberta Energy and Utilities Board ruled in Rider's favor regarding its bid to have the Keystone gas plant at Pembina ruled a common processor. The Board ruled that the processing fee charged at the plant is excessive and has ordered Rider and the plant owner/operator to negotiate a lower fee. This decision will significantly improve Rider's operating costs on existing production and allow Rider to expand its drilling plans in the area.

General and Administrative

As a result of Rider's increasing level of activity and growth, the Company's general and administrative costs for 1996 increased to \$187 thousand (\$1.82 per BOE) compared to \$110 thousand (\$1.07 per BOE) during 1995. Capitalized general and administrative costs also increased to \$427 thousand in 1996 from \$257 thousand in 1995.

Total general and administrative costs are anticipated to increase in 1997 as a result of continued overall growth at Rider.

Daily Production
(BOE/d)



EARNINGS SHOWED AN OUTSTANDING GAIN OF 207% OVER 1995

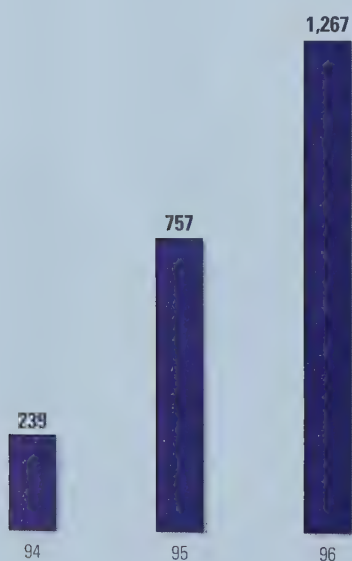


Depletion and Depreciation

Depletion and depreciation expenses for 1996 increased to \$445 thousand from \$405 thousand in 1995. The rate per BOE for 1996 is \$4.34 compared to \$3.94 in 1995.

Rider's provision for site restoration decreased to \$77 thousand from \$85 thousand in 1995. The provision is based on the Company's estimate of future clean-up and restoration costs of producing wells, shut-in wells and facility sites. The expense is recorded annually on a unit-of-production basis. As a result of the increase in reserves in 1996 the provision for the year declined from that recorded in 1995.

Cash Flow
(thousands \$)



Rider, as required under the full cost method of accounting for oil and natural gas properties, annually completes a ceiling test. This test ensures that capital costs, net of deferred taxes, do not exceed the estimated value of future net revenues from oil and natural gas reserves. Future net revenues are determined using year end prices, less future general and administrative costs related to production of those reserves, financing costs and income taxes. No write down of the oil and gas assets was required as a result of the ceiling test at December 31, 1996.

Income Taxes

Rider's initial share capital was raised through the issuance of flow-through shares where tax deductions, resulting from capital expenditures, are renounced to shareholders. As a result, Rider had limited tax pools to shelter its income from taxation. In 1995 Rider recorded \$100 thousand of current income taxes. Rider, through its ongoing drilling and development activity, has begun to accumulate tax pools to defer future income taxes. In 1996 the Company recorded \$5 thousand of current income tax expense, all of which relates to an adjustment to the 1995 provision. At the end of 1996 the Company has a total of \$2.5 million of tax pools. The Company does not expect to pay any income tax in 1997. The ability to defer tax beyond 1997 will be dependent on future earnings and capital expenditures.

RIDER MORE THAN DOUBLED ITS YEAR-END PROVEN RESERVES OF OIL AND GAS



Netbacks

Cash flow from operations increased to \$1.3 million in 1996 (\$0.55 per share) from \$757 thousand (\$0.35 per share) in 1995. On a BOE basis cash flow from operations increased to \$12.35 from \$7.37 the previous year. This increase, both in total and on a BOE basis, is due primarily to higher crude oil and natural gas prices in 1996 compared to 1995. Net income also benefited from the higher oil and gas pricing with the Company reporting net income of \$427 thousand (\$0.18 per share) from \$139 thousand (\$0.06 per share) in 1995. Net income per BOE was \$4.16 compared to \$1.35 in 1995

Netbacks

	1996	1995
Oil and gas sales	\$23.23	\$17.52
Interest and other income	1.24	1.36
	24.47	18.88
Royalties, net of credits	(1.62)	(1.73)
Production	(8.63)	(7.74)
General and administrative	(1.82)	(1.07)
Current income taxes	(0.05)	(0.97)
Cash flow netback	12.35	7.37
Depletion and depreciation	(4.34)	(3.94)
Provision for future site restoration	(0.75)	(0.83)
Deferred income taxes	(3.10)	(1.25)
Net income	\$4.16	\$1.35

Capital Expenditures

The Company invested \$2.4 million (1995 - \$1.6 million) on capital projects in 1996. Rider continues to add reserves of oil and gas at rates very favorable compared to industry averages. In 1996 the Company's finding and on-stream costs relative to proven reserves only was \$2.59 per BOE compared to \$3.11 in 1995. Rider's efforts in 1997 will be focused on continued development at Handsworth and Pembina.

Liquidity and Capital Resources

At December 31, 1996 Rider has no outstanding debt and an unused line of credit of \$1.4 million. Rider financed its 1996 capital expenditure program through a combination of cash flow from operations (\$1.3 million), equity financing of \$450 thousand and a working capital deficiency of \$714 thousand. Rider's 1997 capital program will be funded by a combination of cash flow, debt and/or equity.

Subsequent to year end, Rider has negotiated a \$4.0 million reducing line of credit at a rate of prime plus 1/2 of one percent

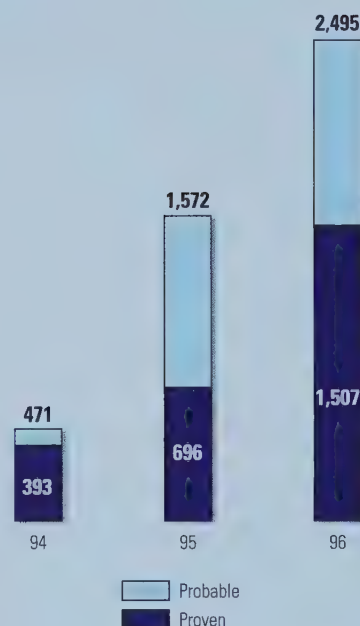
RIDER'S SHARE PRICE INCREASED BY A REMARKABLE 296% IN 1996



Reserves

Rider's reserves as evaluated by McDaniel & Associates Consultants Ltd. as at January 1, 1997 showed significant growth. Proven oil and gas reserves increased 117% in 1996 to 1,507 MBOE from 696 MBOE at the end of 1995. Rider replaced its 1996 production by 9 times on the basis of proven reserve additions only, with this figure rising to 10 times using proven plus probable additions. Rider's reserve life index, based on average 1996 production rates and proven reserves, is 18.6 years for oil and NGL's and 6.8 years for natural gas. Finding and on-stream costs for proven reserves only in 1996 are \$2.59 per BOE (1995 - \$3.11) and on the basis of proven plus probable reserves \$2.31 per BOE (1995 - \$1.07).

Reserves (MBOE)



Reconciliation of Changes in Reserves

	Crude Oil & NGL (Mbbls)			Natural Gas (Mmcft)			Total Reserves MBOE)		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
December 31, 1994	239.9	61.0	300.9	1,426.0	278.0	1,704.0	382.5	88.8	471.3
Additions	245.1	811.3	1,056.4	1,708.2	(237.7)	1,470.5	415.9	787.5	1,203.5
Production	(67.5)	—	(67.5)	(352.6)	—	(352.6)	(102.8)	—	(102.8)
December 31, 1995	417.5	872.3	1,289.8	2,781.6	40.3	2,821.9	695.7	876.3	1,572.0
Additions	927.7	20.5	948.2	(132.8)	911.3	778.5	914.4	111.7	1,026.1
Production	(68.7)	—	(68.7)	(339.8)	—	(339.8)	(102.7)	—	(102.7)
December 31, 1996	1,276.5	892.8	2,169.3	2,309.0	951.6	3,260.6	1,507.4	988.0	2,495.4

CASH FLOW ROSE BY 67% OVER THE PREVIOUS YEAR

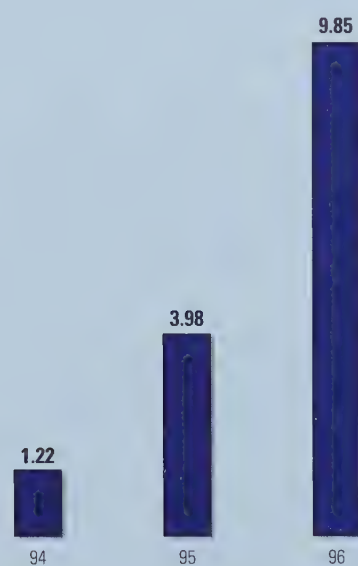


Net Asset Value

The net asset value of the Company at December 31, 1996, based on the reserves as evaluated by McDaniel & Associates Consultants Ltd. is:

Net Asset Value (Thousands)			
	Proven plus probable	Proven plus half probable	Proven only
Present value of crude oil and natural gas reserves discounted at 10%	\$ 25,316	\$ 21,164	\$ 17,012
Undeveloped acreage	283	283	283
Working capital deficiency	(714)	(714)	(714)
Net asset value	\$ 24,885	\$ 20,733	\$ 16,581
Class A shares outstanding	2,527	2,527	2,527
Net asset value per Class A share	\$ 9.85	\$ 8.20	\$ 6.56

Net Asset Value
Per Share (\$)



Based on proven plus probable reserves
(discounted at 10%)

EARNINGS SHOWED AN OUTSTANDING GAIN OF 207% OVER 1995



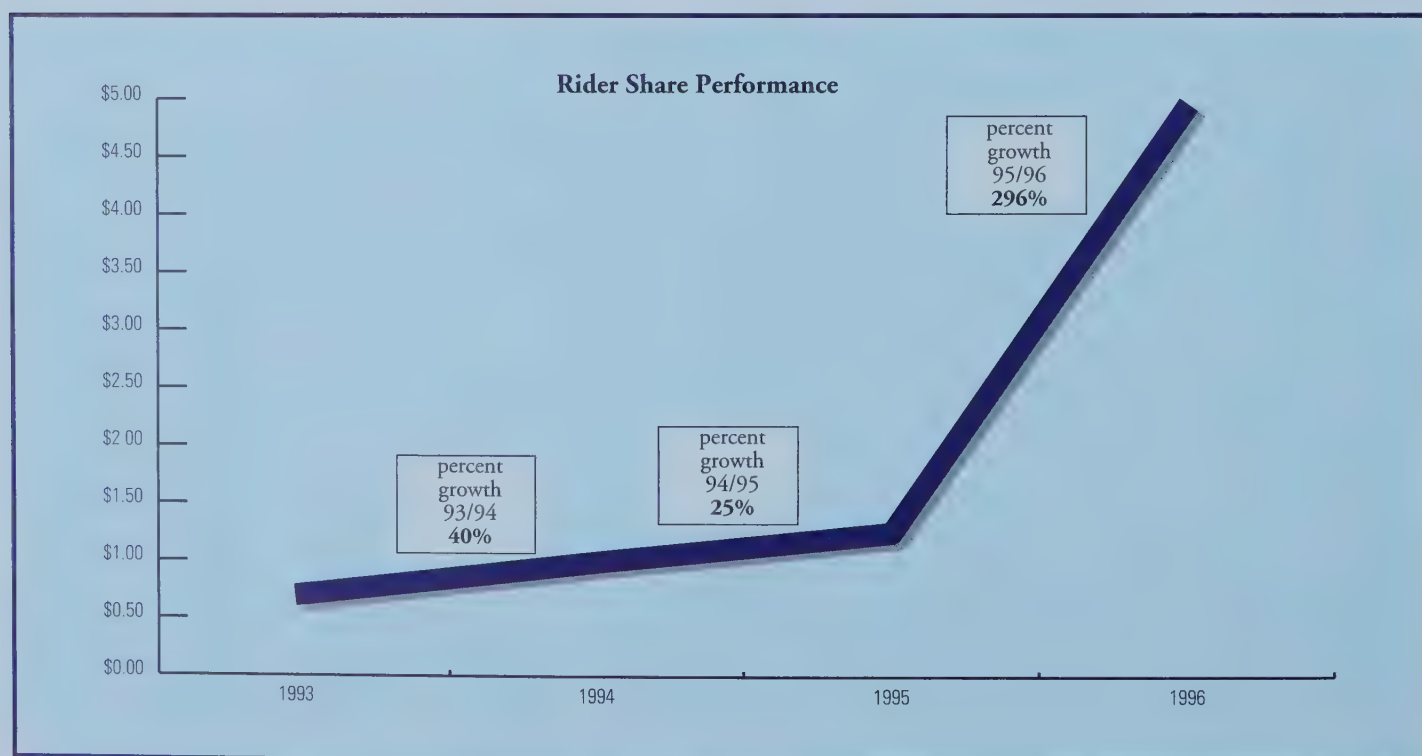
Share Capital

The outstanding share capital of the Company consists of 2.5 million Class A voting shares that are listed for trading on the Alberta Stock Exchange and 3.7 million Class B non-voting, convertible, redeemable shares. During 1996 the Company issued a total of 450,000 Class A common shares, through various private placements for total proceeds of \$682 thousand. Of the total Class A shares issued during the year 300,000 were issued on a flow-through basis.

Share Trading History

	1996	1995	1994
High	\$5.30	\$1.50	\$1.90
Low	\$1.20	\$0.90	\$0.65
Close	\$4.95	\$1.25	\$1.00
Volume	778,981	381,503	286,141

The Company, through a Normal Course Issuer Bid also repurchased a total of 147,800 Class A common shares in the year for a total cost of \$421 thousand. In 1996 778,981 Class A common shares traded on the Alberta Stock Exchange. The high price for the year was \$5.30, the low price was \$1.20 and the stock closed the year \$4.95.



RIDER MORE THAN DOUBLED ITS YEAR END PROVEN RESERVES OF OIL AND GAS



Business Risks

Rider, as a participant in the business of petroleum and natural gas production is faced with a number of risks and uncertainties which have the potential to significantly impact operating and financial results. These risks include fluctuations in commodity prices, exchange rates and interest rates as well as the uncertainty of results of capital expenditures and future government regulations. Although many of these risks are beyond the control of management, Rider will continue with its emphasis on low risk, value building projects with a tight control over costs in order to maximize returns in whatever environment we are faced. This risk is further mitigated by maintaining a highly motivated, energetic and talented staff of petroleum and natural gas professionals.

The following table shows the estimated effect of changes in commodity prices, production rates and exchange rates on Rider's projected 1997 cash flow per share:

Sensitivity Analysis (\$ Per Share)

Oil production (effect of a 100 barrel per day change in oil volumes)	\$0.21
Gas production (effect of a 1 Mmcf per day change in gas volumes)	\$0.10
Oil price (effect of a \$1.00 U.S. per barrel change in WTI oil price)	\$0.06
Gas price (effect of a \$0.10 per Mcf change in gas price)	\$0.01
Exchange rate (effect of a \$0.01 change in the value of the Cdn. dollar expressed in U.S. dollars)	\$0.02

Outlook

Rider will continue in 1997 with the same corporate strategy that it has followed since its inception. The emphasis will be on building a solid production base through low risk value building projects. In 1997 Rider expects that its last two years of rapid reserve growth will translate into significantly increased levels of production. Rider has in place an ambitious, but realistic capital expenditure program to further develop its core areas as well as expand into new areas, as appropriate.

RIDER'S SHARE PRICE INCREASED BY A REMARKABLE 296% IN 1996



Management's Report

The accompanying financial statements of Rider Resources Inc. were prepared by management in accordance with accounting principles generally accepted in Canada. Financial information presented throughout the Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial purposes. In preparation of financial statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Based on careful judgements, such estimates have been properly reflected in the accompanying financial statements.

The external auditors conduct an independent examination of the financial statements in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through its Audit Committee. This committee meets with management and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.



B.E. Hörner
President



T.K. Rouse
V.P., Finance

Calgary, Alberta
February 3, 1997

Auditors' Report

To the Shareholders of Rider Resources Inc.

We have audited the balance sheets of Rider Resources Inc. as at December 31, 1996 and 1995 and the statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Calgary, Alberta
February 3, 1997



Balance Sheets

As At December 31	1996	1995
Assets		
Current assets:		
Cash and short term deposits	\$ 562,958	\$ 844,996
Accounts receivable	481,713	308,309
Prepaid expenses	106,216	112,427
	1,150,887	1,265,732
Petroleum and natural gas properties (note 2)	4,708,915	2,791,244
	\$ 5,859,802	\$ 4,056,976

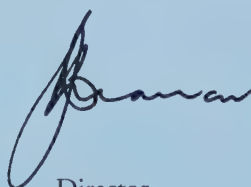
Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,864,760	\$ 1,038,881
Income taxes payable	—	100,000
	1,864,760	1,138,881
Provision for site restoration	175,902	105,871
Deferred income taxes ¹	446,606	128,000
	2,487,268	1,372,752
Shareholders' equity		
Share capital (note 3)	3,102,315	2,471,393
Retained earnings	270,219	212,831
	3,372,534	2,684,224
	\$ 5,859,802	\$ 4,056,976

Signed on behalf of the Board,



Director



Director

Statements of Operations and Retained Earnings

For the Years Ended December 31	1996	1995
Revenue		
Oil and gas sales	\$ 2,384,182	\$ 1,800,748
Royalties, net of credits	(166,064)	(178,009)
	2,218,118	1,622,739
Interest and other income	126,997	140,383
	2,345,115	1,763,122
Expenses		
Production	885,724	796,107
General and administrative (note 2)	187,026	109,619
Depletion and depreciation	445,027	405,348
Provision for future site restoration costs	76,780	85,000
	1,594,557	1,396,074
Income before income taxes	750,558	367,048
Income taxes (note 4)		
Current	5,012	100,000
Deferred	318,606	128,000
	323,618	228,000
Net income	426,940	139,048
Retained earnings, beginning of year	212,831	122,687
Share repurchase (note 3)	(369,552)	(48,904)
Retained earnings, end of year	\$ 270,219	\$ 212,831
Basic earnings per share (note 6)	\$ 0.18	\$ 0.06

Statements of Changes in Financial Position

For the Years Ended December 31	1996	1995
Cash provided by (used in):		
Operations:		
Net income	\$ 426,940	\$ 139,048
Items not involving cash		
Depletion and depreciation	445,027	405,348
Provision for future site restoration costs	76,780	85,000
Deferred income taxes	318,606	128,000
Cash flow from operations	1,267,353	757,396
Changes in non-cash working capital	558,686	406,507
	1,826,039	1,163,903
Financing:		
Issue of common shares	682,250	133,500
Repurchase of common shares (note 3)	(420,880)	(60,765)
	261,370	72,735
Investments:		
Additions to petroleum and natural gas properties	(2,369,447)	(1,606,679)
Net decrease in cash	(282,038)	(370,041)
Cash and short term deposits, beginning of year	844,996	1,215,037
Cash and short term deposits, end of year	\$ 562,958	\$ 844,996
Cash flow from operations per share (note 6)	\$ 0.55	\$ 0.35

1. SIGNIFICANT ACCOUNTING POLICIES

Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for its petroleum and natural gas properties. All costs directly related to the exploration for and development of petroleum and natural gas reserves, whether productive or non-productive, are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenditures, lease rental costs on non-producing properties, drilling costs of both productive and non-productive wells, production equipment costs and overhead charges directly related to these activities. Proceeds of disposals are normally deducted from the full cost pool without recognition of a gain or loss.

Depletion and Depreciation

Petroleum and natural gas properties and related equipment are depleted and depreciated using the unit-of-production method, based on estimated proven reserves of oil and gas before royalties, as determined by independent consulting engineers. For the purpose of this calculation, production and reserves of oil and natural gas are converted to equivalent units based on relative energy content (6:1). Costs of unproved properties are excluded from this calculation until proved reserves are established or impairment occurs.

Depreciation of office furniture and equipment is provided for on a declining basis at an annual rate of 20%

Ceiling Test

The Company annually applies a ceiling test to capitalized costs to ensure that such costs do not exceed the cost of unproved properties plus undiscounted future net revenues from production of proved reserves at year end product prices less estimated future administration, financing, site restoration and income tax expenses.

Site Restoration and Abandonment Costs

The Company provides for site restoration and abandonment costs over the life of the proved reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, costs, technology and industry standards. The annual charge to income is recorded as a provision for future site restoration costs and the accumulated liability is classified as a long term liability. Actual costs, as incurred, are charged to the accumulated liability.

Joint Ventures

Substantially all of the exploration and production activities of the Company are conducted jointly with others, and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

Flow-through Shares

The Company has financed a significant portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax benefits of the related expenditures are renounced to the shareholders. To recognize the renunciation of the foregone tax benefits to the Company, the carrying value of the petroleum and natural gas properties and share capital are reduced by the estimated amount of the tax benefits renounced to shareholders at the time the related expenditures are incurred.

2. PETROLEUM AND NATURAL GAS PROPERTIES

December 31, 1996	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 4,516,459	\$ 726,811	\$ 3,789,648
Production equipment and other	1,137,939	218,672	919,267
	<u>\$ 5,654,398</u>	<u>\$ 945,483</u>	<u>\$ 4,708,915</u>

December 31, 1995	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 2,604,811	\$ 375,065	\$ 2,229,746
Production equipment and other	686,889	125,391	561,498
	<u>\$ 3,291,700</u>	<u>\$ 500,456</u>	<u>\$ 2,791,244</u>

During the year ended December 31, 1996 the Company capitalized overhead charges of \$427,185 (December 31, 1995 \$257,000). Costs related to acquiring and evaluating unproved properties totalling \$283,000 (December 31, 1995 \$283,000) were excluded from the depletion calculation.

3. SHARE CAPITAL

(A) Authorized

Unlimited number of Class A voting shares

Unlimited number of Class B non-voting shares

(B) Issued

	1996		1995	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Class A Shares				
Beginning of year	2,224,780	523,753	2,148,680	402,114
Issued for cash (i)	450,000	682,250	129,800	133,500
Normal course issuer bid (ii)	(147,800)	(51,328)	(53,700)	(11,861)
End of year	<u>2,526,980</u>	<u>1,154,675</u>	<u>2,224,780</u>	<u>523,753</u>
Class B Shares				
Beginning of year	3,742,264	1,947,640	3,742,264	2,248,534
Tax benefits renounced relating to flow-through shares	—	—	—	(300,894)
End of year	<u>3,742,264</u>	<u>1,947,640</u>	<u>3,742,264</u>	<u>1,947,640</u>
Total share capital		<u>3,102,315</u>		<u>2,471,393</u>

- (i) During 1996 the Company issued 300,000 Class A common shares on a flow-through basis, pursuant to a private placement. Total proceeds from this issue was \$450,000.
- (ii) 147,800 shares (1995 - 53,700) were repurchased and cancelled under the Company's normal course issuer bid at an average cost of \$2.85 (1995 - \$1.13). The excess of the cost of the shares over their assigned value amounting to \$369,552 (1995 - \$48,904) was charged to retained earnings.
- (iii) Class A shares and Class B shares are equally entitled to dividends declared and the remaining property upon the wind-up of the Company. The Class B shares may be converted into Class A shares at the option of the Company any time after August 31, 1997 and before June 30, 1999. The fraction of a Class A share obtained upon conversion of each Class B share will be equal to \$1.00 divided by the greater of \$1.00 and the current market price of the Class A shares. Class B shares are redeemable at the option of the Company after January 2, 1999 and prior to June 30, 1999 at a price equivalent to the fair market value of the Class B shares provided the current market price of Class A shares exceeds \$1.00. Any Class B shares not converted or redeemed as at June 30, 1999 will be deemed to be converted into Class A shares at the greater of \$1.00 or the then current market price of the Class A shares.

(C) Share Options

The Board of Directors has approved the granting of options to certain directors, officers and employees of the Company. At December 31, 1996, 250,548 common shares were reserved for issuance under the stock option plan. These options are exercisable at various dates to November 2001, at prices ranging from \$0.75 to \$3.49. Of the total options 174,868 were exercisable at December 31, 1996.

4. INCOME TAXES

Total income taxes are different than the amount computed by applying the combined expected Canadian Federal and Provincial tax rates of 44.8% (December 31, 1995 - 44.3%) to income before taxes. The reason for these differences are as follows:

	1996	1995
Computed expected income taxes	\$ 336,148	\$ 160,830
Increase (decrease) in income taxes resulting from:		
Non-deductible crown payments	45,013	51,330
Resource allowance	(89,737)	(39,870)
Non-deductible depletion	58,784	101,600
Share issue costs	(34,363)	(34,000)
Non-taxable Alberta Royalty Tax Credits	(7,318)	(12,200)
Other	15,091	310
	<u>\$ 323,618</u>	<u>\$ 228,000</u>

At December 31, 1996 there was approximately \$1,391,000 (December 31, 1995 - \$1,580,000) of oil and gas properties without a tax base. This amount arose as a result of the Class B flow-through shares (note 3).

5. COMMITMENTS

The Company is committed to a lease related to office premises which expires in 2001. The annual rentals for each of the years until expiry is as follows:

1997	\$	72,312
1998	\$	101,326
1999	\$	108,199
2000	\$	108,199
2001	\$	63,116

6. EARNINGS AND CASH FLOW PER COMMON SHARE

	1996	1995
Basic		
Earnings per share	\$ 0.18	\$ 0.06
Cash flow from operations per share	\$ 0.55	\$ 0.35
Weighted average number of shares outstanding	2,320,313	2,193,847
Fully Diluted		
Earnings per share	\$ 0.13	\$ 0.03
Cash flow from operations per share	\$ 0.39	\$ 0.14
Fully diluted number of shares outstanding	3,291,117	5,391,540

Fully diluted earnings per share and cash flow from operations per share have been calculated after taking into account all share options and assuming the conversion of the Class B non-voting shares at the end of the year using the fraction of \$1.00 divided by \$4.95 for 1996 and \$1.25 for 1995, which were the Class A share closing market prices at December 31, 1996 and 1995 respectively (note 3).

7. AVAILABLE CREDIT LINE

The Company has set up a \$4,000,000 reducing loan facility with a Canadian chartered bank. Advances under the facility bear interest at prime plus $\frac{1}{2}$ of one percent and are secured by a registered fixed and floating charge debenture. The facility is subject to annual review. At December 31, 1996 there was no outstanding balance.

8. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Three Year Summary

(\$ thousands except per share amounts)	%Change 96/95	1996	1995	1994
Oil and natural gas revenue	+32	2,384	1,801	384
Net earnings	+207	427	139	123
-per share	+200	0.18	0.06	0.06
Cash flow from operations	+67	1,267	757	239
-per share	+57	0.55	0.35	0.11
Capital expenditures	+47	2,369	1,607	2,994
Total assets	+44	5,860	4,057	3,317
Shareholders' equity	+26	3,373	2,684	2,773
Class A Shares outstanding	+14	2,527	2,225	2,149
Production				
Crude oil and NGL's (BOPD)	+2	188	185	43
Natural gas (Mcf/d)	-4	928	966	96
Barrels of oil equivalent (10:1)	-1	280	282	53
Average prices				
Crude oil and NGL's (\$/Bbl)	+30	28.57	22.01	20.45
Natural gas (\$/Mcf)	+39	1.24	0.89	1.79
Proven and probable reserves				
Crude oil and NGL's (Mbbls)	+68	2,169	1,290	301
Natural gas (Mmcf)	+16	3,261	2,822	1,704
Barrels of oil equivalent (10:1)	+59	2,495	1,572	471
Finding and on stream costs				
Proven reserves (\$/BOE)	-17	2.59	3.11	5.09
Wells Drilled				
Gross		3	8	25
Net		1.5	3.8	3.9
Net success rate (%)		100	93	91

Corporate Information

Head Office

Suite 1250, 333 - 5th Avenue S.W.
Calgary, Alberta T2P 3B6

Phone: (403) 266-0844

Fax: (403) 266-0846

Board of Directors

B.E. Horner ^{**}
Calgary, Alberta

B.J. Seaman ^{**}
Calgary, Alberta

K.M. Horner ^{*}
Calgary, Alberta

W.L. Kaufmann ⁺
Calgary, Alberta

^{*} member of audit committee

⁺ member of compensation committee

Officers

B.E. Horner
President

L.W. Kotschorek
Vice-President, Land & Marketing

T.K. Rouse
Vice-President, Finance

K.M. Horner
Corporate Secretary

Exchange Listing

The Alberta Stock Exchange
Symbol: RRIA

Transfer Agent

The R-M Trust Company
Calgary, Alberta

Solicitors

Bennett Jones Verchere
Barristers & Solicitors
Calgary, Alberta

Auditors

Deloitte & Touche
Chartered Accountants
Calgary, Alberta

Evaluation Engineers

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

Bankers

The Royal Bank
Main Branch
Calgary, Alberta

Abbreviations

ARTC	– Alberta Royalty Tax Credit
Bbls	– barrels
MBbls	– thousand barrels
BOPD	– barrels of oil per day
Mcf	– thousand cubic feet
Mmcf	– million cubic feet
Bcf	– billion cubic feet
BOE	– barrels of oil equivalent
MBOE	– thousands of BOE
BOEPD	– barrel of oil equivalent per day
/d	– per day
NGL	– natural gas liquid

Natural gas is equated to oil on the basis of: 10 Mcf = 1 BOE.



Suite 1250, 333 - 5th Avenue, S.W.

Calgary, Alberta T2P 3B6

Phone: (403) 266-0844

Fax: (403) 266-0846